

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 95 - HB 96

February 20, 2013

SUMMARY OF BILL: Exempts from state and local sales tax sales of equipment repair services to food service establishments that are subject to regulation and inspection under the Hotel, Food Service Establishment and Public Swimming Pool Inspection Act of 1985.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$3,986,700

Decrease Local Revenue – Net Impact – \$1,626,900

Assumptions:

- The current Fiscal Review Committee estimates for sales tax collection growth rates are 1.96 percent for FY12-13 and 3.20 percent for FY13-14. Sales tax collections are assumed to remain constant in years subsequent to FY13-14.
- The current sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- According to the Department of Revenue (DOR), state sales tax collections from eating establishments were \$638,961,204 in FY11-12.
- State sales tax collections from eating establishments in FY13-14 and subsequent years are estimated to be \$672,332,358 ($\$638,961,204 \times 101.96\% \times 103.20\%$). Taxable sales for eating establishments in FY13-14 and subsequent years are estimated to be \$9,604,747,971 ($\$672,332,358 / 7.0\%$).
- According to DOR and based on the *2010 Edition Restaurant Industry Operations Report*, maintenance and repair costs are estimated to be 1.4 percent of restaurant total sales. It is further estimated that equipment repair service costs for eating establishments are equal to 1/3 of such maintenance and repair costs, or 0.467 percent ($1.4\% / 3$).
- Therefore, sales of equipment repair services for eating establishments in FY13-14 and subsequent years are estimated to be \$44,854,173 ($\$9,604,747,971 \times 0.467\%$).
- According to DOR, state sales tax collections for drinking places were \$14,249,356 in FY11-12.
- State sales tax collections for drinking places in FY13-14 and subsequent years are estimated to be \$14,993,560 ($\$14,249,356 \times 101.96\% \times 103.20\%$). Taxable sales for

eating places in FY13-14 and subsequent years are estimated to be \$214,236,571 (\$14,996,560 / 7.0%).

- Equipment repair service costs for drinking places are reasonably estimated to be 0.1% of total sales, or \$214,237 ($\$214,236,571 \times 0.1\%$).
- It is estimated that other food service establishments incur \$1,000 per establishment in annual expenses for repair services to commercial appliances. There are currently 16,969 other food service establishments in Tennessee. These numbers are assumed to remain constant into perpetuity.
- Equipment repair service costs for other food service establishments are estimated to be \$16,969,000 ($\$1,000 \times 16,969$) in FY13-14 and subsequent years.
- The total sales of equipment repair services to food service establishments in FY13-14 and subsequent years are estimated to be \$62,037,410 ($\$44,854,173 + \$214,237 + \$16,969,000$).
- The recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$4,342,619 ($\$62,037,410 \times 7.0\%$); the recurring decrease in local option sales tax revenue as a result of the proposed exemption is estimated to be \$1,550,935 ($\$62,037,410 \times 2.5\%$).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% [$(5.5\%/7.0\%) \times 4.603\%$].
- The recurring decrease in local revenue pursuant to the state-shared allocation as a result of the proposed exemption is estimated to be \$157,072 ($\$4,342,619 \times 3.617\%$).
- The net recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$4,185,547 ($\$4,342,619 - \$157,072$).
- The total recurring decrease in local sales tax revenue as a result of the proposed exemption is estimated to be \$1,708,007 ($\$1,550,935 + \$157,072$).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- Recurring tax savings are estimated to be \$5,893,554 ($\$4,342,619 + \$1,550,935$).
- The recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$206,274 ($\$5,893,554 \times 50.0\% \times 7.0\%$).
- The recurring increase in local option sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$73,669 ($\$5,893,554 \times 50.0\% \times 2.5\%$).
- The recurring increase in local revenue pursuant to the state-shared allocation as a result of 50 percent of tax savings being spent in the economy is estimated to be \$7,461 ($\$206,274 \times 3.617\%$).
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$198,813 ($\$206,274 - \$7,461$).

- The total recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$81,130 (\$73,669 + \$7,461).
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$3,986,734 (\$4,185,547 - \$198,813).
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$1,626,877 (\$1,708,007 - \$81,130).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise".

Lucian D. Geise, Executive Director

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